

**Proposed
Environmental Cooperative Agreement
between
Wisconsin Electric Power Company
and
Wisconsin Department of Natural Resources**

This agreement is being entered into pursuant to sec. 299.80 Wisconsin Statutes by the Wisconsin Department of Natural Resources ("WDNR") and Wisconsin Electric Power Company ("Wisconsin Electric" or the "Company"), for the purpose of providing an integrated, multi-emission air quality strategy for the Company's coal burning power plants in Wisconsin.

I. FACILITY INFORMATION

Project Summary

This Environmental Cooperative Agreement will allow Wisconsin Electric to implement an integrated air quality approach at its coal burning power plants in Wisconsin. Wisconsin Electric will implement enforceable limitations and requirements on emissions of sulfur dioxide ("SO₂"), nitrogen oxides ("NO_x"), and particulate matter ("PM"), and it will implement work practice requirements to address carbon monoxide ("CO") emissions at these plants. The proposed emission limits will be phased in over a ten year period. The Company will meet certain interim limits for NO_x, SO₂ and PM five years following approval of this agreement. These proposed limits are more stringent than the current limitations for its Wisconsin coal burning power plants.

In exchange for agreeing to comply with more stringent limitations than currently required, Wisconsin Electric will receive flexibility with regard to making certain physical or operational changes at its non-nuclear generating stations. Specifically, the Company will be able to make physical or operational changes at its facilities without triggering New Source Review ("NSR") or Prevention of Significant Deterioration ("PSD") and New Source Performance Standards ("NSPS") as long as either (1) an exemption applies from NSR/PSD under 40 CFR § 52.21 or (2) emissions following the proposed modification will not exceed pounds per hour ("lbs/hr") limits set for each generating unit based on actual emissions during the most recent five year period prior to this agreement.

By limiting emissions from physical changes that do not otherwise qualify for a PSD/NSR exemption, this Agreement will ensure that emissions from the Company's Wisconsin coal burning power plants will not exceed previously permitted emission levels. This permitting proposal will provide the Company with the flexibility and the incentive to make improvements to its generating system. These improvements will ultimately enable it to produce power for its customers more efficiently and in a manner protective of the environment

Facility and Project Background Information

Wisconsin Electric - a subsidiary of Wisconsin Energy Corporation - produces, delivers, and sells electric energy in southeastern, east central, and northern portions of Wisconsin and the Upper Peninsula of Michigan. It operates five coal burning power plants in Wisconsin. Wisconsin Electric also owns or operates three natural gas fired power plants, several hydroelectric power plants, a wind turbine, and a nuclear power plant.

As part of its corporate mission, the Company is committed to improving the quality of life in the area it services. Consistent with this mission, Wisconsin Electric continually works to improve the compatibility of its operations with the environment by integrating environmental factors into its planning and operating decisions and minimizing the environmental impacts of its operations by meeting or surpassing environmental standards. Consistent with this corporate mission, the Company has developed this integrated air quality strategy proposal, which will result in emission reductions from the Company's Wisconsin coal burning power plants to the benefit of its customers and the residents of its service territory.

II. DEFINITIONS

The following definitions are applicable to this agreement:

- a. "Approval" means a permit, license or other approval issued by the department under chapters 280 to 295 Wis. Stats.
- b. "Cooperative Agreement" means an agreement entered into under section 299.80(6), Wis. Stats.
- c. "Environmental management system" means an organized set of procedures implemented by the owner or operator of a facility to evaluate the environmental performance of the facility and to achieve measurable or noticeable improvements in that environmental performance through planning and changes in the facility's operations.
- d. "Environmental performance" means the effects, whether regulated under chapters 280 to 295 Wis. Stats. or unregulated, of a facility on air, water, land, natural resources and human health.
- e. "Facility" means all buildings, equipment and structures located on a single parcel or on adjacent parcels that are owned or operated by the same person.
- f. "Interested person" means a person who is or may be affected by the activities at a facility that is covered or proposed to be covered by a cooperative agreement or a representative of such a person.
- g. "Performance evaluation" means a systematic, documented and objective review conducted by or on behalf of the owner or operator of the facility including an evaluation of compliance with the cooperative agreement covering the facility, approvals that are not replaced by the cooperative agreement and the provisions of chapters 280 to 295 Wis. Stats. and rules promulgated under those chapters for which a variance is not granted.
- h. "Pollutant" means any of the following: any dredged spoil, solid waste, incinerator residue, sewage, garbage, refuse, oil, sewage sludge, munitions, chemical wastes, biological materials, radioactive substance, heat, wrecked or discarded equipment, rock, sand, cellar dirt, or industrial, municipal, or agricultural waste discharged into water or onto land, any dust, fumes, mist, liquid,

smoke, other particulate matter, vapor, gas, odorous substance or any combination of those things emitted into the air but not uncombined water vapor.

i. "Violation" means a violation of a cooperative agreement, of an approval that is not replaced by the cooperative agreement or of a provision of chapters 280 to 295 Wis. Stats. and rules promulgated under those chapters for which a participant has not received a variance.

III. PERIOD OF AGREEMENT

This agreement shall commence following its signing by both parties and continue for five years, during which period Wisconsin Electric and WDNR shall abide by all terms and conditions contained herein. Unless both parties object, this agreement will be renewed for another five years pursuant to s. 299.80(6e), Wis. Stats.

Both the federal site specific rule and the revision to the Wisconsin State Implementation Plan (SIP) stemming from this agreement will contain "sunset" provisions ending authorization for the certain flexibility provisions of this project ten years after the effective dates of the site specific rule and SIP revision, except that the performance commitments contained in Section IX will continue to apply to Wisconsin Electric following the expiration of this agreement. The federal site specific rule and the SIP revision will also address the withdrawal or termination conditions and procedures (as described in Section IV).

IV. AMENDMENT/REVOCATION

Pursuant to s. 299.80(7), Wis. Stats., WDNR may amend this agreement with the consent of Wisconsin Electric or for cause. WDNR may revoke this agreement at the request of Wisconsin Electric or if the Company is in substantial noncompliance, refuses to amend this agreement, is unable or unwilling to meet commitments, or has not addressed a substantive issue raised by a majority of the interested persons (s. 299.80 (7), Wis. Stats). WDNR shall provide at least 30 days for public comment on the proposed amendment or revocation of a cooperative agreement and an opportunity for a hearing if comments demonstrate considerable public interest in the proposed action.

V. ENTIRE AGREEMENT

This agreement, together with any specifications, referenced parts, attachments and effective amendments, shall constitute the entire agreement. Communications or understandings made prior to the signing of this agreement and pertaining to its subject matter are hereby superseded. All revisions to this agreement must be made by a written amendment to this agreement, signed by both parties and issued under the same procedures as this agreement.

VI. PROJECT MANAGEMENT

WDNR and Wisconsin Electric shall each assign a Project Manager for the duration of this agreement. The Project Managers shall be familiar with the history and contents of the agreement, and it shall be their responsibility to oversee and coordinate the necessary actions as contained in the agreement. The Project Managers shall facilitate communications between the parties to this agreement and serve as the primary contacts for all related inquiries.

VII. STAKEHOLDER GROUP

Wisconsin Electric and WDNR are committed to working with stakeholders to make this agreement a success. The project stakeholders represent a mix of local, state and national interest groups and have included the following organizations: Environmental Defense, the Delta Institute, and Wisconsin Environmental Decade.

Prior to the development of this agreement, Wisconsin Electric met individually with each stakeholder organization to discuss the proposed project. Wisconsin Electric and WDNR initially met with its stakeholders as a group on August 17, 2000 to discuss the overall concepts contained in this agreement. The stakeholders provided Wisconsin Electric with comments on the initial concept proposal. These comments were addressed, and several of the comments have been integrated into this agreement.

In addition to the meetings with the core stakeholders, Wisconsin Electric has communicated with members of the public in the areas near its coal burning power plants about the terms of this agreement. This outreach has occurred through different mechanisms, including written communication and open houses. Interested members of the public will have the opportunity to participate in the project.

Assistance available from Wisconsin Electric to stakeholders and other interested persons shall include but not be limited to the following:

Informational Meetings and Forums	<ul style="list-style-type: none"> Invited informational meetings for external members of the public and other interested persons not otherwise part of the formal stakeholders group
Tours and Open Houses	<ul style="list-style-type: none"> Targeted tours for external members of the interested persons group
Mailings	<ul style="list-style-type: none"> Summary information sheets outlining key information about the plants' operations, environmental performance, and key components of the Cooperative Agreement, including progress on specific commitments and activities within the agreement
Wisconsin Electric Internet Site	<ul style="list-style-type: none"> Development of a specific page on the Wisconsin Electric's internet site dedicated to this agreement.

	<ul style="list-style-type: none"> • Linkage of the Wisconsin Electric internet site with the WDNR Cooperative Agreement Internet site
Presentations and Visits	<ul style="list-style-type: none"> • Actively soliciting and responding to invitations from external groups for presentations by Wisconsin Electric and plant staff on the plant operations, environmental performance, and progress on the agreement
Summaries to WDNR	<ul style="list-style-type: none"> • Annual summaries to WDNR's Regional and Central offices on the implementation progress of a) commitments to environmental performance and b) operational flexibility and variances • Annual summaries to WDNR on the Company's overall progress on implementation of the Cooperative Agreement and environmental performance

XIII. COMMITMENT TO ENVIRONMENTAL MANAGEMENT SYSTEM

Wisconsin Electric commits to develop and document an environmental management system (EMS) meeting the requirements of ISO 14001 at the Pleasant Prairie, Oak Creek, Valley and Milwaukee County Power Plants. An EMS will be implemented at Wisconsin Electric's proposed repowered Port Washington Power Plant under the Company's Power The Future program within one year of initiating commercial operation.

IX. COMMITMENT TO ENVIRONMENTAL PERFORMANCE

Summary Commitments to Environmental Performance

Wisconsin Electric's proposed project will result in emission reductions in SO₂, NO_x and PM from its coal burning power plants in Wisconsin and will require Wisconsin Electric to maintain and implement good combustion practices at these power plants to manage CO emissions. The emission reductions proposed as part of this agreement are more stringent than requirements currently in place for Wisconsin Electric and will require the Company to reduce its emissions over the next ten years.

Wisconsin Electric proposes to achieve a rate based SO₂ limit of 0.6 lbs/mmBTU and a rate based particulate matter limit of 0.03 lbs/mmBTU within ten years of the date of this agreement, with interim limits of 0.9 lbs/mmBTU of SO₂ and 0.06 lbs/mmBTU of PM to be achieved within five years of the date of this agreement. Wisconsin Electric's 2000 Wisconsin system weighted average rate for SO₂ was approximately 0.87 lbs/mmBTU, and its Wisconsin system weighted average rate for particulate matter in 2000 was less than 0.03 lbs/mmBTU.

Under this agreement, Wisconsin Electric will also meet a rate based NO_x limit of 0.15 lbs/mmBTU within ten years of the date of this agreement. An interim NO_x limitation of 0.25 lbs/mmBTU will be achieved within five years. Wisconsin Electric's 2000 Wisconsin system weighted average NO_x rate was approximately 0.38 lbs/mmBTU.

In addition to the proposed limitations on SO₂, NO_x and PM, Wisconsin Electric proposes to work together with the WDNR toward achieving certain performance goals with regard to mercury and greenhouse gas emissions. With regard to mercury, Wisconsin Electric proposes a goal of reducing mercury emissions from its coal burning facilities in Wisconsin by 10% from 1997-1999 levels within five years of this agreement. It further proposes to reduce its Wisconsin mercury emissions from a mix of coal burning sources, other compliance options, and other mercury emitting sources by 40% from 1997-1999 levels within ten years of this agreement.

Wisconsin Electric and WDNR will also work together to implement an early reduction registry system for greenhouse gases. Wisconsin Electric intends to take action to reduce emissions of greenhouse gases and will register any reductions which occur. Wisconsin Electric and WDNR believe that the goals on mercury and greenhouse gases and the environmental commitments on NO_x, SO₂, PM and CO represent environmental performance that is beyond current regulatory requirements.

Innovation

This agreement represents an innovation from the current regulatory framework because it includes an integrated air quality approach over a ten year period. Unlike the current regulatory framework, this proposed project includes emission limitations and emission reduction requirements across Wisconsin Electric's coal burning power plants in Wisconsin for SO₂, NO_x, and PM which will be phased in over a 10 year period. The agreement also contains work practice requirements to address CO emissions and corporate goals for mercury and greenhouse gases during the ten year period.

By setting forth interim and final limitations to be achieved by the Company in five years and ten years, this agreement encourages technological innovation because it provides Wisconsin Electric with the time to investigate the best methods to achieve these proposed limitations within the time period required, as opposed to the current regulatory environment under which companies often have as little as three years from promulgation of a final rule to implement the emission control requirements of that rule. The current rules also typically address the emission of one substance at one time. This structure favors the installation of equipment to control emissions of one regulated substance without encouraging consideration of whether a different control strategy would have collateral benefits for the reduction of other emissions.

This agreement, however, will encourage Wisconsin Electric to determine how best to comply with emission reduction requirements so that the greatest environmental benefit can be achieved considering the cost of control and the reduction achieved. Wisconsin Electric will be able consider its emission reduction requirements for SO₂, NO_x, and PM, and its emission reduction goals for mercury and greenhouse gases, and select the most appropriate emission control options to address all those emissions. It will also be able to investigate new emission control

strategies that it would not otherwise investigate under the current regulatory environment. Wisconsin Electric believes that this approach will result in greater environmental benefits at a lower cost than would be achieved under the current regulatory environment.

Cost Saving and Paperwork Reduction

In addition to the environmental benefits discussed above, this project will result in additional permitting flexibility as well as cost savings to both Wisconsin Electric and WDNR. Under this agreement, Wisconsin Electric will have the flexibility to make physical or operational changes to its generating units without obtaining an NSR/PSD or NSPS permit in certain instances. This permitting flexibility will enable Wisconsin Electric to better maintain and operate its generating units in a safe, reliable and cost effective manner. Wisconsin Electric will also be able to implement efficiency projects at its facilities that it would not otherwise implement under current regulations because of the costs associated with determining the applicability of NSR/PSD permitting requirements.

Wisconsin Electric believes that these efficiency projects will enable it to meet the demands for power in its service area at a lower cost per megawatt hour. Wisconsin Electric also believes that these cost savings may enable it to investigate methods of reducing emissions from its coal-burning power plants. This agreement will also result in more predictable expenditures on environmental control equipment and correspondingly more predictable rates for Wisconsin Electric's customers.

Further, the reduction in the amount of time and paperwork associated with routine permit modifications and the certainty that this agreement provides with regard to major source permitting will also provide cost savings to WDNR. This project will reduce the time and paperwork costs associated with the review by WDNR of permit applications for physical and operational changes at Wisconsin Electric power plants. The WDNR currently faces tight budget constraints in the Air Management Program. Reducing staff time and paperwork costs associated with permitting activities for Wisconsin Electric while maintaining stringent emission limitations will allow WDNR to allocate its scarce resources to other sources that need permits.

Transferability

Wisconsin Electric and WDNR believe that the approach embodied in this agreement is readily transferable to other utilities and independent power producers.

X. EMISSION LIMITS

With the exception of those limits identified in Section XI (Operational Flexibility and Variances), the Company commits to abide by all current and future applicable environmental limits. Any provisions of permits or approvals covered by this agreement that are not specifically superseded in Section XI shall remain in effect.

As stated above, Wisconsin Electric proposes to make the following enforceable commitments which will be applicable to its Wisconsin coal burning units, excluding its 9 MW County Unit:

1. Nitrogen Oxides

Wisconsin Electric will meet the following NOx limitations across its Wisconsin coal burning units described above using averaging across the units:

- a. 0.25 lbs/mmBTU within five years of the date of this agreement
- b. 0.15 lbs/mmBTU within ten years of the date of this agreement

2. Sulfur Dioxide

Wisconsin Electric will meet the following SO2 limitations across its Wisconsin coal burning units described above using averaging across the units:

- a. 0.9 lbs/mmBTU within five years of the date of this agreement
- b. 0.6 lbs/mmBTU within ten years of the date of this agreement

3. Particulate Matter

Wisconsin Electric will meet the following PM limitations across its Wisconsin coal burning units described above using averaging across the units:

- a. 0.06 lbs/mmBTU within five years of the date of this agreement
- b. 0.03 lbs/mmBTU within ten years of the date of this agreement

4. Carbon Monoxide

Wisconsin Electric will maintain and implement good combustion practices at all coal burning units covered by the agreement to manage the emissions of CO.

Wisconsin Electric proposes to demonstrate compliance with the NOx commitments discussed above on an annual average and a seasonal average basis. Compliance with the SO2 requirements will be demonstrated on an annual average basis, and compliance with PM requirements will be demonstrated using stack testing data. The annual and seasonal average will be demonstrated using the methodology required under the Federal Acid Rain program. Wisconsin Electric will maintain records demonstrating compliance with the proposed CO requirements.

In addition to the enforceable commitments discussed above, Wisconsin Electric also proposes the inclusion of two corporate goals in this proposed project. These goals concern reductions in mercury and greenhouse gas emissions. With regard to mercury, the Company proposes a goal

of reducing mercury emissions from its Wisconsin coal burning power plants by 10% from 1997-1999 levels within five years of the date of this agreement and to reduce mercury emissions from a mix of coal burning sources, other compliance options, and other mercury emitting sources by 40% from 1997-1999 levels within ten years of the date of this agreement.

Wisconsin Electric also proposes as part of the agreement to work with WDNR to implement its early reduction registry system for greenhouse gases, to take actions to reduce greenhouse gas emissions, and to register reductions in greenhouse gases.

Wisconsin Electric proposes to maintain records to demonstrate compliance with the enforceable commitments made under this agreement and to provide WDNR with information on its emissions and efforts to achieve its corporate goals for mercury and greenhouse gases in an annual report.

XI. OPERATIONAL FLEXIBILITY AND VARIANCES

In exchange for the environmental commitments discussed above, Wisconsin Electric requests certain permitting flexibility for physical or operational changes at its Wisconsin non-nuclear power plants. Under this agreement, Wisconsin Electric will establish a cap on the maximum hourly emissions in lbs/hr for each of its coal burning units for purposes of determining the applicability of major source and NSPS permitting when the other permitting exemptions contained in the NSR/PSD rules do not apply.

These maximum hourly emissions will be determined for each unit individually based upon a maximum hourly number achieved during the five years prior to this agreement and will serve as an hourly cap on emissions for each respective generating unit for NSR/PSD and NSPS limits. The cap will become enforceable once the unit undergoes a physical or operational changes that is not otherwise exempt from NSR/PSD. Following a change, the Company will comply with the hourly emission cap on a rolling 24-hour average basis.

Under this agreement, Wisconsin Electric would determine the appropriate hourly emission cap for each unit and ensure that any proposed physical or operational change to that unit adheres to the hourly emission cap. If the emissions will be maintained below the hourly emission cap, the project can be undertaken without NSR/PSD or NSPS permitting. If emissions for the proposed project would exceed the hourly emission cap, major source permitting is necessary to comply with NSR/PSD requirements. Wisconsin Electric will also establish maximum hourly emission caps for its oil and gas burning units and for its 9 MW County Unit. For these units, however, this cap would apply only to those physical or operational changes that are designed to maintain operation of the units as currently configured.

Wisconsin Electric believes that this permitting approach will reduce the uncertainty that may exist when permitting physical or operational changes at electric generating sources by creating a “bright line” under which Wisconsin Electric could make physical or operational changes without constituting a “modification” for major source permitting purposes. Under the current regulatory scheme, a physical change that increases emissions from a generating unit may

subject the unit to NSR/PSD and/or NSPS review. To the extent that there is uncertainty among electric generators and state regulators concerning to what extent physical changes and replacements may occur without major source permitting, this approach would provide Wisconsin Electric with certainty with regard to permitting physical changes at its generating units while ensuring that actual emissions from the generating units will not increase beyond their pre-modification levels.

Wisconsin Electric also believes that the proposed approach will result in improvements at its generating units that would not otherwise occur absent this project. Under the agreement, however, Wisconsin Electric will be both able and encouraged to implement energy efficiency projects which will be both environmentally and commercially beneficial.

XIII. PERIODIC PERFORMANCE EVALUATION

Within 90 days after 1) the first full year of the agreement and 2) each year of the agreement thereafter, the Company shall provide an annual written performance report to WDNR containing the following information:

- Actual annual emissions for NO_x, SO₂, PM, CO, mercury and CO₂ by plant and information concerning calculation of those emissions;
- Actual seasonal emissions for NO_x for the period May – September;
- Information concerning the status of any research projects underway to study mercury emission reductions and the status of Wisconsin Electric's efforts to meet its mercury reduction goals;
- Information concerning the status of any research projects underway to study greenhouse gas emission reductions and the status of Wisconsin Electric's efforts to reduce its system-wide emission rate;
- Information concerning any sales or purchases of generating facilities which occurred during the previous year;
- Any emission reductions during the previous year registered with the early credit registry; and
- Information concerning any non-performance with this agreement for the previous year

XII. REPORTING OF VIOLATIONS

Any violations discovered as part of an environmental performance evaluation shall be disclosed to WDNR within 45 days of the completion of the evaluation in a report containing the information required under s. 299.80(12), Wis. Stats. WDNR may not take any civil enforcement action on any such reported violations if they are corrected in a timely manner, unless the violations present an imminent threat to public health or the environment or may cause serious

harm to public health or the environment, or the department discovers the violations before the Company discloses them. This does not exempt the Company from the requirements for immediate notification contained in s. 292.11, Wis. Stats. Any criminal violations would always be subject to WDNR enforcement action.

XIV. REOPENER

At any time during the period of the agreement the Company may request to reopen the agreement for potential modifications to reflect changing business conditions, environmental performance goals, modification or inclusions of other provisions, or for other valid reasons as mutually agreed with WDNR. Any modifications to the agreement shall require the same approvals as did the original agreement.

XV. APPLICABLE LAW

The laws of the State of Wisconsin shall govern this agreement. Except as provided herein, the Company shall at all times comply with all Federal, State, and Local laws, ordinances and regulations in effect during the period of this agreement.

XVI. ADDRESSES

All correspondence and communication shall be directed to the appropriate contact person listed below. Changes in the information listed below shall be forwarded to the other party when effective and shall become part of this agreement without a formal amendment.

John Shenot
Wisconsin Department of Natural Resources
PO Box 7921
Madison, WI 53707-7921

Kris McKinney
Wisconsin Electric Power Company
P.O. Box 2046
Milwaukee, WI 53201

XVII. SIGNATURE PAGE